

STATEMENT OF
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DEPARTMENT OF TRANSPORTATION
BEFORE THE
SUBCOMMITTEE ON AVIATION
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
U.S. HOUSE OF REPRESENTATIVES
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THANK YOU MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE. I AM PLEASED TO BE HERE TO DISCUSS AIR SERVICE AT MEDIUM -SIZED COMMUNITIES.

LET ME SAY AT THE OUTSET THAT THE DEPARTMENT TAKES SERIOUSLY THE PRIMARY ECONOMIC POLICY SET OUT IN OUR IMPLEMENTING AVIATION STATUTE -- THE PROMOTION OF EFFICIENT AND LOW-PRICED SERVICE AND MAINTENANCE OF COMPETITION IN THE DOMESTIC AIRLINE INDUSTRY. OVER THE YEARS, THE DEPARTMENT HAS TAKEN STEPS TO ASSURE THAT THE COMPETITIVE PROCESS IS ALLOWED TO WORK TO THE BENEFIT OF THE TRAVELING PUBLIC AND TO CITIES OF ALL SIZES IN ALL REGIONS OF OUR COUNTRY.

AS A GENERAL MATTER, THE DEPARTMENT'S PAST STUDIES AND ITS ONGOING ANALYSIS OF THE DOMESTIC AIRLINE INDUSTRY LEAD US TO CONCLUDE THAT DEREGULATION CONTINUES TO BE AN ENORMOUS SUCCESS IN BRINGING BETTER SERVICE AND LOWER FARES TO THE VAST MAJORITY OF CONSUMERS AT CITIES OF ALL SIZES. AVERAGE INFLATION-ADJUSTED FARES HAVE CONTINUED A LONG TERM TREND DOWNWARD THROUGH 1996. SINCE 1981, THE FIRST YEAR WHEN AIR CARRIERS HAD PRICING FREEDOM, THE AVERAGE REAL FARE IN THE U.S. HAS FALLEN 37.2 PERCENT.

WELL-TIMED, FREQUENT SERVICE CONTINUES FOR MOST CITIES. THIS HAS BEEN MADE POSSIBLE BY THE DEVELOPMENT OF HUB AND SPOKE SYSTEMS IN THE MID 1980'S AND THE ONGOING COMPETITION IN THE INDUSTRY.

THIS DOES NOT MEAN THAT THERE ARE NO PROBLEMS. OUR STUDIES HAVE DEMONSTRATED THAT NOT ALL TRAVELERS AND MARKETS HAVE ENJOYED THE SAME LEVEL OF BENEFITS. LARGE COMMUNITIES THAT SERVE AS CONNECTING HUBS FOR ONE DOMINANT CARRIER TEND TO HAVE HIGH LOCAL FARES. WE HAVE OBSERVED THAT THIS HUB-RELATED FARE PREMIUM PROBLEM CAN BE ADDRESSED IN THE MARKETPLACE WHERE NEW AIRLINE ENTRY HAS OCCURRED. HOWEVER, WHERE COMPETITION FROM NEW ENTRANT AIRLINES HAS NOT DEVELOPED, HUB FARE PREMIUMS PERSIST, AND MAY IN FACT BE INCREASING. AT THE OTHER END OF THE MARKET SIZE SPECTRUM, FARES AND SERVICE AT SMALL COMMUNITIES ARE BENEFITING AND ARE ALSO ARE RECEIVING SPECIAL SCRUTINY IN STUDIES AT THE DEPARTMENT; AND OF COURSE WE HAVE THE ESSENTIAL AIR SERVICE PROGRAM TO ADDRESS COMMUNITIES SO SMALL AS TO REQUIRE FEDERAL SUBSIDY TO MAINTAIN SCHEDULED SERVICES.

MEDIUM SIZED COMMUNITIES HAVE IN THE PAST TENDED NOT TO BE SINGLED OUT IN THE PUBLIC DIALOGUE. FOR THE MOST PART, MEDIUM SIZED COMMUNITIES HAVE DONE WELL UNDER DEREGULATION. THEY ARE LARGE ENOUGH TO BE ATTRACTIVE SPOKES FOR AIRLINE NETWORKS. THEY GENERALLY RECEIVE GOOD NONSTOP SERVICE TO MULTIPLE HUBS, AND CONVENIENT AND COMPETITIVE ONE-STOP SERVICE OPTIONS TO MOST OF THE POPULAR DESTINATIONS AROUND THE COUNTRY. FURTHERMORE, THE

RECENT INTRODUCTION OF REGIONAL JETS IN THE INDUSTRY COULD FURTHER ASSIST THIS MARKET SEGMENT.

THE GENERAL ACCOUNTING OFFICE REPORT OF APRIL 1996 ON SERVICE AND FARES AT SMALL, MEDIUM AND LARGE COMMUNITIES DEFINED MEDIUM SIZED COMMUNITIES AS THOSE WITH METROPOLITAN AREA POPULATIONS BETWEEN 300,000 AND 600,000. THAT REPORT FOUND THAT MEDIUM SIZED COMMUNITIES HAVE, AS A GROUP, DONE WELL IN TERMS OF RECEIVING LOWER FARES, MORE DEPARTURES, MORE SEATS, AND MORE JETS. OF COURSE, THERE ARE SOME COMMUNITIES THAT HAVE NOT DONE AS WELL AS THE GROUP AS A WHOLE.

I PARTICIPATED IN THE NATIONAL AIR SERVICE ROUNDTABLE DISCUSSION HELD IN CHATTANOOGA EARLIER THIS YEAR. THE ROUNDTABLE WAS HELD TO DISCUSS PROBLEMS AND POSSIBLE SOLUTIONS TO LOCAL AIR SERVICE PROBLEMS AT MID-SIZED CITIES LIKE CHATTANOOGA THAT HAVE NOT DONE WELL UNDER DEREGULATION. SOME GOOD IDEAS CAME OUT OF THAT MEETING. IT WAS RECOGNIZED THAT COMPETITION IS NEEDED, AND CITIES LIKE CHATTANOOGA MUST TRY TO ATTRACT NEW AIRLINE ENTRY. THE RECOMMENDATIONS ALSO FOCUSED ON THE BENEFITS OF LOCAL EDUCATION OF CONSUMERS AND BUSINESSES AS TO THE BENEFITS THEY RECEIVE BY SUPPORTING NEW ENTRANT CARRIERS. BEYOND THAT, LOCAL FINANCIAL INCENTIVES WERE ADDRESSED TO ENCOURAGE AIRLINE ENTRY. THIS COULD BE DONE WITH LOCAL CIVIC AND CORPORATE MONEY WHICH CAN BE USED TO GUARANTEE A PARTICULAR LEVEL OF REVENUE TO A NEW AIRLINE OR TO PROVIDE DIRECT PROMOTIONAL SUPPORT. THESE FINANCIAL INCENTIVES CAN GIVE CARRIERS THE OPPORTUNITY TO PENETRATE NEW MARKETS AS THEY ATTEMPT TO ESTABLISH PROFITABLE OPERATIONS ON A LONG-TERM BASIS. THIS MODEL HAS PROVEN TO BE SUCCESSFUL IN RETAINING LOW FARE SERVICE IN MOBILE, AND IS THE GENERAL CONCEPT BEHIND THE BUSINESS TRAVEL CONTRACTORS CORPORATION IDEA ON HOW TO BRING LOW-FARE SERVICE TO HIGH FARE MARKETS USING REVENUE GUARANTEES FROM CORPORATE PARTICIPANTS.

AT THE NATIONAL LEVEL, THE DEPARTMENT ALSO BELIEVES THAT NEW ENTRY AND LOW FARE SERVICE IS A NECESSARY ELEMENT IN A DEREGULATED DOMESTIC AIR SERVICE MARKET. IN APRIL 1996, THE DEPARTMENT PUBLISHED A STUDY ENTITLED "THE LOW-COST AIRLINE SERVICE REVOLUTION". THAT STUDY DOCUMENTED HOW COMPETITION FROM SOUTHWEST AIRLINES AND OTHER NEW ENTRANT AIRLINES WAS GROWING RAPIDLY AND SAVING CONSUMERS AN ESTIMATED \$6.3 BILLION ANNUALLY IN AIRLINE FARES. IT NOTED THAT VIRTUALLY ALL OF THE DOMESTIC TRAFFIC GROWTH IN RECENT YEARS WAS DUE TO THE COMPETITIVE IMPACT OF LOW FARE CARRIERS. THESE CARRIERS WERE COMPETING FIERCELY WITH THE OLDER AIRLINES, AND ON OCCASION WOULD COME TO THE DEPARTMENT TO COMPLAIN ABOUT THE COMPETITIVE PRACTICES OF THE LARGER INCUMBENT CARRIERS. IN SPITE OF OCCASIONAL COMPLAINTS, OUR ANALYSIS SHOWED THAT THESE SMALLER NEWER COMPANIES WERE HAVING A HUGH IMPACT.

HOWEVER, OVER THE PAST YEAR WE HAVE BECOME AWARE THAT THE SPREAD OF COMPETITION FROM LOW FARE SERVICE MAY BE IN JEOPARDY, AND WE ARE RECEIVING AN INCREASING NUMBER OF COMPLAINTS FROM SMALLER CARRIERS ABOUT ANTICOMPETITIVE ACTIVITY. SINCE THE TRAGIC VALUJET ACCIDENT LAST MAY, THE EXPANSION OF COMPETITION FROM LOW FARE CARRIERS HAS SLOWED SUBSTANTIALLY. NEW ENTRY HAS BEEN CUT. ALTHOUGH I AM PLEASED TO REPORT THAT THREE NEW ENTRANTS HAVE BEEN RECENTLY AUTHORIZED, WE HAVE RECEIVED NO NEW LOW-FARE APPLICATIONS THIS CALENDAR YEAR. WE KNOW THAT SEVERAL COMPANIES THAT WERE CLOSE TO APPLYING FOR AUTHORITY FOUND THAT CAPITAL WAS DRYING UP AND THE TIME WAS NOT RIGHT TO START A NEW LOW-FARE AIRLINE.

THE CAPITAL MARKETS AND THE AMERICAN TRAVELING PUBLIC ARE CLEARLY FEELING AN UNEASE ABOUT THESE COMPANIES

THE COMPLAINTS WE ARE HEARING FROM SMALL CARRIERS TYPICALLY INCLUDE THE LARGER AIRLINES TEMPORARILY MATCHING OR ALLEGEDLY UNDERCUTTING THE MUCH LOWER FARES THAT THESE LOWER COST CARRIERS CAN PROVIDE. ALSO, WE HEAR ABOUT THE OFFERING OF AN INCREASED NUMBER OF SEATS IN THE MARKET AT THESE LOW FARES, IN AN ALLEGED ATTEMPT TO ELIMINATE THE NEW ENTRANTS FROM THE MARKET. THIS EXTRA CAPACITY IS OFTEN ACCOMPLISHED BY BRACKETING, WITH EXTRA FLIGHTS, THE FLIGHT TIMES OF THE NEW CARRIERS.

WHILE THE DEPARTMENT HAS NOT COME TO ANY DEFINITIVE CONCLUSIONS ABOUT THESE COMPLAINTS, THEY HAVE RAISED A CONCERN ABOUT THE NEED FOR APPROPRIATE ACTION. BOTH THE DEPARTMENT OF TRANSPORTATION AND THE ANTITRUST DIVISION OF THE DEPARTMENT OF JUSTICE ARE STUDYING CASES WHERE PREDATORY PRACTICES HAVE BEEN ALLEGED BY SMALLER AIRLINES. RECENTLY, A SENIOR JUSTICE DEPARTMENT OFFICIAL NOTED THAT, "THE STRUCTURE OF THE AIRLINE INDUSTRY IS CONDUCIVE TO SUCCESSFUL PREDATION STRATEGIES".

THE DEPARTMENT OF TRANSPORTATION HAS SOMEWHAT BROADER AUTHORITY THAN THE ANTITRUST DIVISION TO PROHIBIT UNFAIR METHODS OF COMPETITION. THE SECRETARY HAS THE POWER TO ACT EVEN IF THE PRACTICE DOES NOT VIOLATE THE ANTITRUST LAWS, BUT IS SIMILAR TO AN ANTITRUST VIOLATION. THE SECRETARY MAY DETERMINE THAT A PRACTICE IS AN UNFAIR METHOD OF COMPETITION EITHER IN AN ENFORCEMENT CASE OR IN A RULEMAKING THAT WOULD HAVE A PROSPECTIVE IMPACT ON ALL AIRLINES.

AS AN AID IN OUR EFFORTS TO ENHANCE PRICE COMPETITION, EDUCATE CONSUMERS AND CIVIC LEADERS AND ENCOURAGE NEW ENTRY, EARLIER THIS MONTH THE DEPARTMENT RELEASED THE FIRST OF WHAT IS TO BE A REGULAR QUARTERLY REPORT ON AIR FARES USING DATA REPORTED TO THE DEPARTMENT BY THE AIRLINES. THE REPORT COVERS THE TOP 1,000 CITY-PAIR MARKETS AND SHOWS AVERAGE ONE-WAY FARES. ALSO INCLUDED IS FARE AND MARKET SHARE INFORMATION FOR THE DOMINANT AIRLINE IN THE MARKET AND THE AIRLINE WITH THE LOWEST FARE. A SECOND TABLE SUMMARIZES DATA FOR THE LARGEST CITIES. AND TABLES ARE INCLUDED FOR THE MARKETS WITH THE LARGEST FARE INCREASES AND DECREASES

THE REPORT CONFIRMS AGAIN THAT DEREGULATION IS WORKING -- MANY MORE PASSENGERS PAY LOW FARES THAN HIGH FARES. BUT THE REPORT HIGHLIGHTS THE PERSISTENT PROBLEM THE DEPARTMENT HAS NOTED FOR YEARS -- HIGH FARES IN SOME NETWORK HUB CITIES. THE DATA SHOW VERY SIGNIFICANT DIFFERENCES IN AIR FARES IN MARKETS OF COMPARABLE DISTANCE.

MR. CHAIRMAN, I MUST TELL YOU THERE ARE THOSE IN THE INDUSTRY WHO ARE UNHAPPY WITH THE RELEASE OF THIS DATA. THEY ARGUE IT IS A FIRST STEP TOWARD REREGULATION. THEY ALSO CLAIM THE DATA WILL CONFUSE THE PUBLIC. WE OBVIOUSLY DON'T BELIEVE THE PUBLIC WILL SO EASILY BE CONFUSED. IN FACT, I BELIEVE THIS DATA THAT HAS BEEN COLLECTED FOR TWENTY YEARS IS INFORMATION THE PUBLIC IS ENTITLED TO SEE. ALSO, WE ARE NOT INTERESTED IN REREGULATION. ECONOMISTS HAVE LONG HELD THAT COMPETITION IS IMPROVED BY BETTER INFORMATION FOR BUYERS AND SELLERS. WE ARE TRYING TO PROVIDE THAT INFORMATION.

THE CONSUMERS UNION APPEARS TO AGREE WITH OUR CONCEPT OF PROVIDING MORE INFORMATION. CONSUMER REPORTS MAGAZINE FOR JULY COVERS THE HIGH AIR FARE PHENOMENON BY PRESENTING AIR FARE DATA AND SHOWING THE SAME DRAMATIC DIFFERENCES SHOWN IN THE DOT REPORT. THE CONSUMERS UNION LAST WEEK PETITIONED THE DEPARTMENT TO CONDUCT A RULEMAKING THAT WOULD RESULT IN MANDATING THAT AVERAGE AND LOWEST FARE INFORMATION BE AVAILABLE TO CONSUMERS WHENEVER THEY CONTACT AIRLINES OR TRAVEL AGENTS. WE WILL NOW CAREFULLY REVIEW THIS SUGGESTION.

ACTIONS BY PRIVATE GROUPS ARE ALSO BEING ORGANIZED TO HELP BRING ABOUT BETTER FARES IN MARKETS WHERE LOW FARE COMPETITION HAS NOT DEVELOPED. BUSINESS TRAVEL CONTRACTORS CORPORATION REPRESENTED HERE TODAY IS WORKING WITH CORPORATIONS TO HELP REDUCE BUSINESS FARES IN SELECTED HIGH FARE MARKETS.

OTHER ACTIONS WE ARE CONSIDERING TO ENHANCE COMPETITION INCLUDE A NEW POLICY ON AIRPORT TAKEOFF AND LANDING SLOT EXEMPTIONS FOR NEW ENTRANTS. THIS POLICY WOULD TAKE COMPETITION INTO CONSIDERATION WHEN EVALUATING EXEMPTIONS REQUESTS. THERE ARE SEVERAL APPLICATIONS BEFORE THE DEPARTMENT THAT COULD COME UNDER THIS NEW POLICY. WE HAVE ALSO BEEN ASKED TO CONDUCT AN INDUSTRY-WIDE INVESTIGATION AND TO ESTABLISH INDUSTRY GUIDELINES FOR APPROPRIATE FORMS OF COMPETITION.

ALL OF THE ACTIONS AND POLICIES, PROPOSED, CONTEMPLATED AND TAKEN, ARE DESIGNED TO HELP TO FURTHER OPEN THE U.S. DOMESTIC AVIATION MARKET TO NEW ENTRY AND PRICE COMPETITION. MANY MID-SIZED CITIES AROUND THE COUNTRY RECEIVE EXCELLENT SERVICE. ENCOURAGING THE GROWTH OF NEW CARRIERS AND COMPETITION IS THE MOST PRODUCTIVE THING THE DEPARTMENT CAN DO TO HELP ASSURE THAT MORE MEDIUM SIZED COMMUNITIES REALIZE THE FULL BENEFITS OF COMPETITION.